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MARKET PRICES

THE Comparable Sales or Market Data approach is the appraisal technique in which the market value estimate is based upon prices paid in actual market transactions. This approach is one of the most difficult to apply because of the uniqueness of individual parcels of real property. There are usually locational advantages and disadvantages to be considered, differences in construction, as well as conditions of sale. Situations such as family sales, transfer from owner to straw party, disposal of properties at bargain prices for quick cash, and sale and leasebacks, to mention a few, will be found when considering conditions of sales.

The reliability of the market data approach is dependent on several fundamental premises. First and foremost, to be of value the properties constituting the market data must have a reasonably high degree of comparability with the subject property. This factor involves the matter of time of sale. Comparability depends not only on the time elapsed between the sale of the comparable property and the date of the appraisal, but more important, on the trends in value which have taken place over this period. Comparability depends on an absence of unusual conditions affecting the sale of the various properties constituting the market data, such as a depressed market due to impending condemnation. Comparability depends on location and size of the proposed comparable property. Another item of considerable importance is the verification of the sales price and other pertinent information concerning the properties which make up the market data.

To the appraiser, who is trying to establish value through the market approach, the sources and reliability of price information are vital. In this bulletin we are going to discuss some of the main sources of information. The whole problem of real estate price information arises because of the cloak drawn across each sale. Nowhere in a bona fide market transfer is it necessary for the buyer or seller to reveal the actual consideration paid, except in some States where a sales tax on real estate transfers requires an affidavit of the actual consideration, which is made a matter of public record.

In general there are four sources for information on the value conveyed in the transfer of a parcel of real property: persons knowing the actual sales

price, the assessed value for property tax purposes, the values indicated by the revenue stamps issued on the sale, and the asking price advertised in the newspaper and in other publications.

The seller's asking price should always be taken with a grain of salt. It is the price that the seller would like to get for his property. Sometimes he will find a buyer willing to go that high, but more than likely the buyer will have a ceiling on his offer lower than the seller's asking price. For example, a recent seller was asking $26,500 for his house only to lower it to $24,500 a few months later. He finally sold the property for $20,500. Asking prices can be obtained from published lists of brokers, from multiple listings published by real estate boards, and from newspapers. There have been attempts to use asking prices in order to establish a real estate price index. It is of limited usefulness for such a purpose because the kinds of properties listed vary from month to month, and the listings may not be representative of the properties actually sold. An index based on asking prices might rise one month because a number of large houses and apartments were listed and fall the next month because only small homes for the low and middle income market were listed. Furthermore, the asking price will tend to equal the actual price in a period of housing shortage, but it will be much higher than the actual price during a period of ample supply.

The assessed value is not reliable for many reasons. In the first place, assessed values are less than market value. In a recent survey made by the Bureau of the Census actual selling prices were compared with assessed values in cities and counties throughout the country. The highest average ratio of assessed value to selling price on single-family houses was .78. Most were much lower than this. You might say, "This problem is easily solved. Just divide the assessed value by the average ratio of assessed value to selling price to arrive at an estimate of market price." An average, however, represents the central tendency of ratios on individual properties, and the ratio of assessed value to selling price on any one property may be 50 to 200 percent of the average. The ratio of an individual parcel may differ from the average because of the differences in deputy assessors or because of the time when the assessment was made. Furthermore, assessors as a rule rely most heavily on the summation or cost approach to value. Often, however, the assessor's records, if available, are useful. Since assessors have to establish value on all the property in communities, they frequently collect and maintain records of transfers, prices, descriptions, and taxation of real property.

The Revenue Act of 1932 placed a stamp tax on deeds of conveyance exceeding $100. This law required that Federal tax stamps be affixed to the deed in an amount not less than 50 cents per $500 of value conveyed, or part thereof. This rate was increased to 55 cents per $500 of value conveyed, or part thereof, by amendments to the Revenue Act in 1940 and 1941. Thus, recorded deeds reveal an estimate of the selling price. Only warranty deeds should be used for bona fide sales. Often executor's deeds, sheriff's deeds, and others

show the actual amount of the consideration, but they do not represent sales between a willing buyer and a willing seller in the open market. There is no law against putting on more stamps than necessary so that this source will tend to give overestimates of the market price. Some transfers in the recorder's office, however, will not show the tax stamps because it is not necessary to affix the stamps prior to recording the transfer. Not only is it possible for the value indicated by the stamp to be higher than the market price, but it may be lower. This can happen when the buyer assumes an existing mortgage on the property. The law requires only that the tax stamp cover the amount of equity conveyed. If your source for the revenue stamp is other than the actual or recorded deed, such as a legal newspaper or other listing, then the value indicated by the stamps may be for the transfer of more than the parcel that you are interested in. This is particularly true in the transfer of slum property. Also, only a partial interest may have been conveyed by the deed. An investigation of the recorded deed will clear up these items.

There are two ways that value can be interpreted from the tax stamps. Below is a table showing the necessary amount of tax stamps, if the value conveyed is within the range in the column on the right:

Stamp Tax	Consideration
\$ 0.55	\$ 101-\$ 500
1.10	501- 1,000
1.65	1,001- 1,500
2.20	1,501- 2,000
17.60	15,501- 16,000

One way to estimate the consideration is to take the mid-point of the range on the right. If a deed shows revenue stamps of \$2.20, the value of the transfer would be estimated at \$1,750. Another way is to use the upper limit of the range as the estimate of value. In this case the value of the transfer would be estimated at \$2,000.

Studies testing the reliability of estimates of market value from tax stamp information show that the latter method is more reliable. In a study of farm property made by Tontz, Kristensen, and Cable in two counties in Oklahoma, it was found that the actual consideration stated on the deed was only 4.1 and 3.4 percent higher than the estimated consideration. This was when they used the mid-point of each range for the estimate of value. They found, however, that there was a tendency for actual considerations to cluster in the upper end of the range indicated by the amount of tax stamps. In a study that we made in 1952 using single-family residential property in a well-maintained neighborhood, it was found that in 422 sales for which both tax stamp information and actual selling price were known, the value represented by the tax stamps (using the upper limit) was exactly the same as the selling price in 69 percent of the sales, and the difference was greater than 10 percent of the selling price in ½

percent of the sales. Thus, the studies to date have shown that market prices estimated from tax stamps are, if used with care, reasonably reliable. This does not mean to say that they should be used without further investigation.

Since the custom is to hide the actual selling price and to write in the deed some comment such as, "$100 and other valuable considerations," the whole problem of determining the actual price has arisen. There are only two or three people who know the actual consideration - the buyer, the seller, and the real estate broker. These are the people to contact once you have collected your initial estimates in order to verify the facts. One appraiser has pointed out that almost all parties to a real estate transfer are either straw parties or have left town. It is usually possible, however, to find at least one party to the sale. It is amazing how often information can be obtained and confirmed by simply ringing doorbells. If the appraiser is polite, friendly, and informal, he can obtain and verify sales, as a perfect stranger, that he could not get as a friend. Do not just verify the sales price, but also check on the reason for purchase and the size of the lot. We have found that it is best to verify the grantor, grantee, address, lot size, sales price, and date of sale; and to take note of the reasons for the sale. The latter comment might read, "This property was acquired to provide a commercial parking lot. Apartment type properties surround the location and a local business area is located one block south."

The ideal market data approach would be to conduct an appraisal of each of the proposed comparable sales. Since the fee and the completion time are limited, such a complete analysis is not possible. It is imperative, however, to verify the comparability of the market sales used.